

83 695

Office - Supreme Court, U.S.

FILED

OCT 27 1983

No. ...-....

IN THE

Supreme Court of the United States

ALEXANDER L. STEVAS,
CLERK

October Term, 1983

SMITH INTERNATIONAL, INC., a California corporation,
Petitioner,

vs.

HUGHES TOOL COMPANY, a Delaware corporation,
Respondent.

**PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT**

LYON & LYON,
A Partnership Including
JAMES W. GERIAK,
DOUGLAS E. OLSON,
ROBERT C. WEISS,
WILLIAM C. STEFFIN,
COE A. BLOOMBERG,
Professional Corporations,
611 West Sixth Street,
34th Floor,
Los Angeles, Calif. 90017,
(213) 489-1600,

Attorneys for Petitioner.

Of Counsel:

JOHN W. SCHNELLER,
1200 17th Street, N.W.,
Washington, D.C. 20036,
(202) 296-6028.

Question Presented

Shall Preliminary Injunctions be granted on the basis of a *presumption* of immediate irreparable harm *rather* than on a *showing* of such harm?

In the context of the present case, in which the Court of Appeals for the Federal Circuit reversed the denial of a preliminary injunction to a patent owner in a patent infringement case, this question can also be phrased as follows:

- a. Shall patent owners be exempted from the requirement embedded in two centuries of unbroken precedent that a showing of immediate irreparable harm must be made before a preliminary injunction can be obtained?
- b. Can the denial of a preliminary injunction by a district court for want of a showing of immediate irreparable harm be reversed as an abuse of discretion by presuming such harm?

TOPICAL INDEX

	Page
Question Presented	i
Opinions Below	1
Jursidiction	1
Statute Involved	2
Statement of the Case	2
Reasons for Granting the Writ	4
What the Court of Appeals Presumed	4
Irreparable Harm Cannot Be Presumed; It Must Be Shown by the Party Seeking an Injunction	5
Smith Is a Very Substantial Company and Is Financially Responsible	8
Just as Irreparable Harm Cannot Be Presumed, Neither Can the Immediacy of Such Harm	8
The Effect of the Decision by the Court of Appeals	11
Conclusion	12
Appendix A. Order Denying Defendant's Motions, Denying Plaintiff's Motion and Setting Status Con- ference	App. p. 1
Appendix B. Opinion of the Court of Appeals	5

TABLE OF AUTHORITIES

Cases	Page
Continental Group, Inc. v. Amoco Chemical Corp., 614 F.2d 351 (3 Cir. 1980)	10
Foundry Services, Inc. v. Beneflux Corp., 206 F.2d 214 (2 Cir. 1953)	6
Fox Valley Harvestore v. A. O. Smith Harvestore Products, Inc., 545 F.2d 1096 (7 Cir. 1976)	6
New York v. Nuclear Regulatory Commission, 550 F.2d 745 (2 Cir. 1977)	10
Nuclear-Chicago Corp. v. Nuclear Data, Inc., 465 F.2d 428 (7 Cir. 1972)	6, 7
S. J. Stile Associates Ltd. v. Snyder, 646 F.2d 522	10
Sampson v. Murray, 415 U.S. 61, 39 L.Ed.2d 166 (1974)	5
Teledyne Industries, Inc. v. Windmere Products, Inc., 433 F.Supp. 710 (S.D. Fla. 1977)	7, 8
United States v. W. T. Grant Co., 345 U.S. 629, 97 L.Ed. 1303 (1953)	10
Virginia Petroleum Jobbers v. Federal Power Commission, 259 F.2d 921 (D.C. Cir. 1958)	6
Zenith Laboratories, Inc. v. Eli Lilly & Co., 460 F.Supp. 812 (D. N.J. 1978)	7, 8
Statutes	
Patent Act, Sec. 283	2
United States Code, Title 28, 1254(1)	1
United States Code, Title 35, Sec. 283	2

No.

IN THE

Supreme Court of the United States

October Term, 1983

SMITH INTERNATIONAL, INC., a California corporation,
Petitioner,

vs.

HUGHES TOOL COMPANY, a Delaware corporation,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Petitioner Smith International, Inc. ("Smith") prays that a writ of certiorari issue to review the opinion and judgment of the United States Court of Appeals for the Federal Circuit in *Smith International, Inc. v. Hughes Tool Co.*, No. 83-677.

Opinions Below

The opinion of the Court of Appeals is not yet reported and appears in Appendix B to this petition. The District Court's opinion is unreported and appears as Appendix A.

Jurisdiction

This Court has jurisdiction under 28 U.S.C. 1254(1). The Court of Appeals rendered its decision on October 6, 1983.

Statute Involved

Patent Act, Section 283; 35 U.S.C. 283:

"The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."

Statement of the Case

This is a patent infringement case which was filed as a declaratory judgment action by Smith in 1972. The two patents in suit relate to two components, a seal assembly and a pressure compensator, respectively, of drilling bits used to drill for oil. Both patents were held invalid by the District Court, without any trial proceedings on the issue of infringement, in 1979. In January, 1982, the Court of Appeals held both patents valid and remanded for further proceedings.

The mandate issued in May, 1982, but it was not until October, 1982 that Hughes moved for a preliminary injunction with regard to one claim of one of the patents, number 3,397,928, which relates to a seal assembly. Hughes made no showing of irreparable harm, *e.g.*, inadequacy of money damages, but argued that "the fact of irreparable injury and requisite equities are presumed in favor of the patentee" (App. 371), basing its position on asserted admissions of infringement by Smith, the last of which occurred five years earlier. In 1972, 1975, 1976, and 1977, Smith had made non-specific allegations of coverage of some unidentified Smith product by some unidentified Hughes patent claim, the last such allegation in 1977 being stated as:

"It having been admitted that some rock bits of plaintiff (Smith) are within the scope of some claims of U.S.

Patent No(s). 3,397,928" (App. 29).

In December, 1982, the District Court denied the motion for a preliminary injunction and noted:

" . . . the limited admission of infringement by plaintiff was too vague to permit the court to structure an injunction meeting the requirements of F.R.Civ.P. 65(d)."

Hughes appealed, again arguing that the "requisite *irreparable harm* and policy considerations are *presumed* to have been satisfied." (Reply Brief, p. 14) (emphasis added).

The Court of Appeals reversed and instructed the District Court to issue a preliminary injunction, holding that the denial of the injunction was a "clear error of law" and "an abuse of discretion" (p. 18) because where patent validity and "continuing" infringement have been established:

" . . . *immediate, irreparable harm* is presumed." (p. 17).

This newly created presumption in favor of a patent owner's entitlement to a preliminary injunction creates a peculiarly favored class of litigant, unprecedented in the history of this nation and at odds with over two hundred years of American jurisprudence.

REASONS FOR GRANTING THE WRIT

If the immediate irreparable harm required for grant of a preliminary injunction can be presumed, the result will be that the very purpose of such injunctions will no longer be relevant to their grant. Such injunctions should not be granted without a showing that there is a compelling need for such relief.

Preliminary injunctions are an extraordinary remedy. The existence of this remedy is premised on the notion that the law should respond to an urgent need for relief. The availability of this remedy has uniformly been conditioned on a showing that urgent need exists. Thus, it has been the consistent policy of the law to require a demonstration of immediate irreparable harm before a preliminary injunction will be granted.

The Court of Appeals eliminated the need for a showing by Hughes that it could not be adequately compensated with money damages and for a showing that Smith was currently infringing the patent. These are the indispensable ingredients of a showing of immediate irreparable harm. If they are to be presumed, two centuries of unbroken precedent will have been abolished. That should not happen without the concurrence of this Court.

What the Court of Appeals Presumed

When the Court of Appeals said (p. 17) in its opinion that:

“ . . . immediate irreparable harm is presumed,”
it presumed two things. These are:

1. That Hughes was suffering irreparable harm; and
2. That this irreparable harm was being suffered now.

Hughes made no effort to make a showing of either of these prerequisites for preliminary injunctive relief. Rather, Hughes argued to the Court of Appeals at page 14 of its Reply Brief:

“Under the circumstances of this case, the requisite irreparable harm and policy considerations are *presumed* to have been satisfied.”

(emphasis added).

Hughes made the same argument to the District Court (App. 371) when it said:

“Hence, when validity and infringement are determined, the *fact of irreparable injury* and requisite equities are presumed in favor of the patentee.”

(emphasis added).

The District Court rejected the proposition that irreparable harm was to be presumed in favor of a patentee, but the Court of Appeals expressly adopted this presumption and made it the basis for reversing the District Court.

Irreparable Harm Cannot Be Presumed; It Must Be Shown by the Party Seeking an Injunction

Irreparable harm cannot exist if Hughes has an adequate remedy at law, *i.e.*, if money damages will adequately compensate Hughes for any injury it may suffer. This Court, in *Sampson v. Murray*, 415 U.S. 61, 90-91, 39 L.Ed.2d 166, 186-87 (1974), said:

“Even under the traditional standards of *Virginia Petroleum Jobbers, supra*, it seems clear that the temporary loss of income, ultimately to be recovered, does not usually constitute irreparable injury. In that case the court stated:

‘The key word in this consideration is *irreparable*. Mere injuries, however substantial, in terms of money, time and energy necessarily expended in the absence of a stay, are not enough. The possibility that adequate compensatory or other corrective relief will be available at a later date, in the ordinary course

of litigation, weighs heavily against a claim of irreparable harm,"

(footnote omitted, emphasis in original) making reference to *Virginia Petroleum Jobbers v. Federal Power Commission*, 259 F.2d 921 (D.C. Cir. 1958). This is the view uniformly expressed elsewhere. For example, in *Fox Valley Harvestore v. A. O. Smith Harvestore Products, Inc.*, 545 F.2d 1096, 1097 fn. 1 (7 Cir. 1976), the court said:

"... the concept of adequacy is incorporated in the requirement of irreparable harm and likelihood of success inasmuch as neither could be established without a showing of an inadequate remedy at law."

This is the law in all of the circuits except, now, the Court of Appeals for the Federal Circuit where validity and infringement of a patent are now considered sufficient to *presume* irreparable harm.

This is a profound change in the law as it relates to preliminary injunction matters generally and to preliminary injunctions in patent cases in particular. Existing patent law is reflected in *Nuclear-Chicago Corp. v. Nuclear Data, Inc.*, 465 F.2d 428, 430 (7 Cir. 1972), where the court reversed the grant of a preliminary injunction in a patent case and said:

"... A defendant's ability to compensate plaintiff in money damages precludes issuance of a preliminary injunction."¹

Typically, financial instability of an accused infringer has been identified as creating a risk that compensation by way of money damages for patent infringement may not be available such that the requirement for irreparable harm will be met.

¹Citing cases from several other circuits, including *Virginia Petroleum Jobbers Association v. Federal Power Commission*, 259 F.2d 921, 925 (D.C. Cir. 1958), and *Foundry Services, Inc. v. Beneflux Corp.*, 206 F.2d 214, 216 (2 Cir. 1953).

In an effort to buttress its view that irreparable harm could be presumed, the Court of Appeals, at page 16 of its Opinion, characterized two district court cases as having "found irreparable harm from continued infringement of a valid patent," without regard to ability to respond in money damages, namely, *Zenith Laboratories, Inc. v. Eli Lilly & Co.*, 460 F.Supp. 812, 825 (D. N.J. 1978), and *Teledyne Industries, Inc. v. Windmere Products, Inc.*, 433 F.Supp. 710, 741 (S.D. Fla. 1977). Neither case so found!

In *Zenith*, at 460 F.Supp. 825, the court said:

"However, by any standard Lilly has amply demonstrated irreparable harm on this record. In addition to the harm aforementioned, it has shown that *Zenith's financial status is tenuous at best*. Zenith will be able to pay no more than \$500,000 in damages were Lilly to prevail in this litigation. *This sum is trivial* in comparison to the estimate \$3.8 to \$6.7 million yearly losses which would be suffered by Lilly on account of Zenith's infringement. *Thus, Lilly has no adequate remedy at law.*"

(emphasis added). Similarly, in *Teledyne*, at 433 F.Supp. 739, 740, the court expressly stated that, "Harm is irreparable when it cannot be compensated adequately in money damages," citing *Nuclear-Chicago, supra*, but it expressed uncertainty by emphasizing that "Windmere *may* be able, after the conclusion of the suit, to respond to the substantial damages that may have accumulated." (court's emphasis). Furthermore, in *Teledyne*, the court found at 433 F.Supp. 740, that there had been palming off by the defendant of its products as those of the patentee and the court said:

“In the unfair competition case, the *solvency* of Windmere and whether that company could *respond in damages* to judgments on the merits of *patent infringement* and unfair competition *need not be considered*, because *over and above money damages*, Teledyne has *established likely damage to its reputation*.” (emphasis added).

Thus, contrary to the view of the Court of Appeals for the Federal Circuit, the court in *Zenith* found the defendant to be woefully incapable of responding in money damages and the court in *Teledyne* found there to be irreparable harm by reason of likely damage to reputation “over and above” the considerations of “solvency of Windmere and whether that company could respond in damages.” Consequently, there is no authority, even at the district court level, for a presumption of irreparable harm and the decision by the Court of Appeals in the present case is plainly a major departure from existing law.

Smith Is a Very Substantial Company and Is Financially Responsible.

As stated in the Declaration of Arthur S. Hess (App. 329-334), Vice President, Financial Operations, of Smith Tool, Division of Smith International, Inc., Smith International’s revenues from product sales in 1981 were \$980,000,000 and its total revenues were \$1,200,000,000. In any event, Hughes has made no contention that Smith will not be able to respond to such money damages as may be awarded in this case and Smith’s very substantial size makes it plain that there would be no basis for such a contention.

Just as Irreparable Harm Cannot Be Presumed, Neither Can the Immediacy of Such Harm

Although the Court of Appeals makes reference in its opinion, e.g., p. 17, to “continuing infringement” by Smith, the Court of Appeals relies only upon allegations by Smith,

which it construes as admissions of infringement, *last made* more than five years *prior* to the decision by the District Court denying a preliminary injunction. The District Court well recognized this crucial deficiency in the record before it and spoke in terms of the need to "determine the extent of plaintiff's infringement in a judicial proceeding" (App. 415), *i.e.*, whether any bits *currently* being manufactured or sold by Smith infringe the patent. This action was initiated more than ten years ago by Smith and, as stated in paragraph 12 of the Hess declaration (App. 332), the "design of the seals" used in Smith's drilling bits "have undergone several changes" since then.

As noted by the District Court (App. 416), "the Court must first determine which of plaintiff's products infringe defendant's patents." There has never been a judicial proceeding in this case which has found that even one product manufactured or sold by Smith infringes a Hughes patent.

The absence of any finding of infringement in this case was noted by the District Court (App. 415) and was the reason that the District Court concluded that the record did not "permit the Court to structure an injunction meeting the requirements of F.R. Civ.P. 65(d)."

All of which is to say that Hughes did not meet its burden of showing any existing infringing activity by Smith, *i.e.*, Hughes made no showing that it would suffer immediate harm of any type, much less immediate irreparable harm.

The District Court, accordingly, denied Hughes' request for a preliminary injunction, but the Court of Appeals held:

"... immediate irreparable harm is presumed."

(p. 17). This presumption departed not only from the law embodied in the decisions of all of the regional Courts of Appeals and of this Court, it departed from the precedent of the predecessor Court, the Court of Customs and Patent

Appeals, of the Court of Appeals for the Federal Circuit. In *S. J. Stile Associates Ltd. v. Snyder*, 646 F.2d 522, 525 (1981), the Court of Customs and Patent Appeals said:

“A preliminary injunction will not issue simply to prevent a *mere possibility* of injury, *even* where prospective injury is *great*. A *presently existing*, actual threat must be shown.”

(emphasis added). No such presently existing threat was shown here; Hughes contended that it should be presumed and it was presumed by the Court of Appeals.

Such a presumption is directly contrary to the holding of this Court in *United States v. W. T. Grant Co.*, 345 U.S. 629, 633, 97 L.Ed. 1303, 1309 (1953), where it was held:

“But the moving party must satisfy the court that [injunctive] relief is needed. The necessary determination is that there exists some cognizable danger of recurrent violation, something more than the mere possibility which serves to keep the case alive.”

The regional Courts of Appeals have uniformly expressed the same view, *e.g.*, *New York v. Nuclear Regulatory Commission*, 550 F.2d 745, 755 (2 Cir. 1977) — “The case law informs us that the award of preliminary injunctive relief can and should be predicated only on the basis of a showing that the alleged threats of irreparable harm are not remote or speculative, but are actual and imminent.” — and *Continental Group, Inc. v. Amoco Chemical Corp.*, 614 F.2d 351, 359 (3 Cir. 1980) — “This Court has held that more than a risk of irreparable harm must be demonstrated. The requisite for injunctive relief has been characterized as a ‘clear showing of immediate irreparable injury,’ . . . or a ‘presently existing actual threat . . .’”

In the present case, Hughes made no showing of any immediacy of harm; it simply requested that such immediacy be presumed. The District Court refused to do so, but the

Court of Appeals acquiesced. Furthermore, the Court of Appeals made these presumptions even though the case was more than 11 years old at the time of its decision and even though Hughes showed no sense of urgency in seeking a preliminary injunction since it waited from May 24, 1982 when the Ninth Circuit issued its mandate to the District Court after reversing the holdings of patent invalidity until October 26, 1982, before bringing its motion for preliminary injunction.

The Effect of the Decision by the Court of Appeals

If, as the Court of Appeals has held, immediate irreparable harm can be presumed in favor of patent owners in patent infringement actions, an entirely different set of rules will apply to patentees who seek preliminary injunctions as contrasted with all other litigants. The impact of such a presumption will, of course, be to eliminate the traditional requirement for a showing of inadequacy of money damages and for existing infringing conduct.

The social and economic impact of preliminary injunctions in patent cases can hardly be overstated. An accused infringer who proceeds at the risk of even possibly being held in contempt of an injunction will conduct itself in a manner vastly different from a litigant who is simply accused of patent infringement. Furthermore, a preliminary injunction, once granted, can be exploited by advising potential customers that they run the risk of substantial liability if they purchase from other than the patentee. The Court of Appeals, by its own statement, wants to give patent owners "leverage" (p. 8) they have not previously enjoyed.

Since the Court of Appeals is now the Court having exclusive appellate jurisdiction over the Federal District Courts in patent infringement actions, it is not possible for diversity among the circuits to develop upon the question of whether

it is proper to presume immediate irreparable harm for the purpose of granting preliminary injunctions in such actions. Thus, the need is clear for this Court to grant certiorari to consider the question of whether such presumption of immediate irreparable harm should be permitted.

Conclusion

The Court of Appeals has wrought a major change in the law relating to preliminary injunctions by presuming, rather than requiring a showing of, immediate irreparable harm and has found that the District Court in this case abused its discretion by not making such a presumption. The intervention of this Court is required to restore the centuries-old requirement that immediate irreparable harm be shown in order to obtain a preliminary injunction in a patent case.

October 27, 1983.

Respectfully submitted,

LYON & LYON,
A Partnership Including
JAMES W. GERIAK,
DOUGLAS E. OLSON,
ROBERT C. WEISS,
WILLIAM C. STEFFIN,
COE A. BLOOMBERG,
Professional Corporations,

Attorneys for Petitioner.

APPENDIX A.

Order Denying Defendant's Motions, Denying Plaintiff's Motion and Setting Status Conference.

United States District Court, Central District of California.

Smith International, Inc., etc., Plaintiff, v. Hughes Tool Company, etc., Defendant. No. CV-72-1231-MML.

Filed: December 16, 1982.

Two motions by defendant and one motion by plaintiff came on for hearing before the Court, the Honorable Malcolm M. Lucas, District Judge, presiding, on November 22, 1982. After careful consideration of the papers filed and of the oral argument of counsel, the Court denies both parties' motions.

Plaintiff seeks modification of this Court's order of October 6, 1982. Plaintiff's motion is not styled as a motion for reconsideration pursuant to Local Rule 3.16 or as a motion for relief from an order of the Court pursuant to F.R.Civ.P. 60. The motion is, therefore, not properly before the Court.

In addition to this "procedural" defect, plaintiff's motion is without merit. Plaintiff again attempts to argue that the appellate court altered the scope of defendant's '928 patent in upholding the validity of the patent in *Smith International Inc. v. Hughes Tool Co.*, 664 F.2d 1373 (9th Cir. 1982). The Court rejects this argument for the reasons stated in its October 6, 1982 order.¹ The Court, therefore, would deny plaintiff's motion if it were properly before it.

¹Plaintiff notes that two of the claims of the '928 patent explicitly limit the durometer hardness to "not over substantially seventy." This is not inconsistent with the October 6, 1982 order. That order simply held that the appellate court did nothing more than uphold the validity of the '928 patent as claimed and did not implicitly read limitations as to use or durometer hardness into claims which contained no such explicit limitation.

Defendant has filed two motions. The first is captioned: "Motion for Entry of Preliminary and Permanent Injunction or, in the Alternative, for Reconsideration of Order of October 6, 1982." In the October 6, 1982 order the Court denied defendant's request that an injunction issue on the grounds that the limited admission of infringement by plaintiff was too vague to permit the Court to structure an injunction meeting the requirements of F.R.Civ.P. 65(d). Defendant's present motion attempts to overcome this hurdle by (a) presenting evidence which defendant contends establishes a well defined area of infringement by plaintiff, and (b) presenting a narrowly worded injunction.

Defendant's presentation of evidence reveals that this motion is, in fact, a motion for partial summary judgment rather than a renewal of the previous motion or a motion for reconsideration. Defendant presents evidence which it contends establishes that plaintiff's "F" series bits infringe claim one of the '928 patent.² Unfortunately, defendant has not brought this motion as a motion for partial summary judgment. Thus, plaintiff cannot be faulted for failing to present evidence in opposition to defendant's motion. It is necessary to determine the extent of plaintiff's infringement in a judicial proceeding — either by trial or by motion for summary judgment — before an injunction can issue. It is quite possible that the evidence as to the extent of plaintiff's infringement is clear and that this determination will be relatively straightforward in light of the Court's rejection of plaintiff's arguments that the appellate court transformed the scope of the '928 patent. Nevertheless, this step must

²Much of the evidence presented was originally presented at trial in 1977. The trial court, however, dismissed defendant's claims for infringement and, therefore, made no findings as to infringement based on the evidence before it.

be taken first. The Court, therefore, denies defendant's motion.³

Defendant also requests the Court to order plaintiff to provide a statement of account in which plaintiff reveals the extent of its infringement in terms of the number of infringing devices sold and the gains and profits derived from these sales. In light of the present status of these proceedings, as discussed in the preceding paragraph, this motion is premature. The Court must first determine which of plaintiff's products infringes defendant's patents.

The Court is prepared to assist the parties in every way possible to move this case forward. Defendant, in its status report filed on July 15, 1982 suggested a discovery schedule upon the premise that the Court would order plaintiff to prepare a statement of account. That premise is incorrect in light of the present order. The Court has, to date, not had the benefit of a status report from plaintiff. Now that the Court has rejected certain arguments by plaintiff it would seem appropriate to set this matter down for a status conference on January 10, 1983, at 10:00 a.m. The parties should meet and confer and present to the Court a joint status report on or before January 3, 1983 setting forth in precise terms their thoughts as to the discovery which remains to be taken and the pre-trial schedule in this litigation. The parties should also set forth in detail any disagreements as to the scope of the issues to be tried as well as the extent to which the parties will be able to stipulate to the facts in this dispute. The Court will set a discovery cut-off date, pre-trial conference date and, if possible, a trial date at the January 10, 1983 status conference.

³In denying defendant's motion the Court does not accept plaintiff's argument that "there has been no determination of infringement in light of the interpretation of the claims made by the Ninth Circuit." As noted above, the Court rejects this line of reasoning entirely.

IT IS SO ORDERED.

IT IS FURTHER ORDERED that the Clerk shall serve, by United States mail, copies of this Order on counsel for the parties in this matter.

Dated: December 15, 1982

/s/ Malcolm M. Lucas
Malcolm M. Lucas
United States District Judge

APPENDIX B.

United States Court of Appeals for the Federal Circuit.

Smith International, Inc., a California corporation, Plaintiff-Appellee, v. Hughes Tool Company, a Delaware corporation, Defendant-Appellant. Appeal No. 83-677. U.S.D.C. No. 72-1231-MML.

Decided: October 6, 1983.

Before BENNETT, *Circuit Judge*, SKELTON, *Senior Circuit Judge*, and MILLER, *Circuit Judge*.

SKELTON, *Senior Circuit Judge*.

This is an appeal from an order of the United States District Court for the Central District of California, which denied a motion of defendant-appellant Hughes Tool Company (Hughes) for the entry of a preliminary injunction against plaintiff-appellee, Smith International, Inc. (Smith) to prevent the further infringement by Smith of two patents owned by Hughes, which the Ninth Circuit Court of Appeals had previously declared valid, and which Smith had admitted it had infringed and was continuing to infringe. For reasons stated below, we reverse the decision of the district court and remand the case with instructions to issue the preliminary injunction.

BACKGROUND

This action has a rather lengthy history, extending over a period of some eleven years. It is necessary to trace this history carefully, because some of the events that transpired during the course of the litigation are persuasive as to the proper disposition of the case. The original complaint was filed by Smith on June 2, 1972, when it brought a declaratory judgment action contesting the validity of Galle Patent No. 3,397,928 (the "928 patent"), issued to Hughes as assignee. Hughes counterclaimed for damages, alleging

that Smith had infringed the '928 patent, as well as Galle Patent No. 3,476,195 (the "'195 patent'"), which was also issued to Hughes as assignee. Smith then asserted the invalidity of both the above patents as an affirmative defense to the counterclaims.

Both of the patents at issue in the declaratory judgment action involve the design of "rock bits," which are earth boring tools used in the rotary drilling of oil and gas wells. The bits were designed by Edward M. Galle, an employee of Hughes, in an effort to extend the lifespan of rock bits exposed to the high temperatures and stresses created in the drilling of oil wells. This goal was achieved by mounting the bit cutting elements on a journal or roller bearings and sealing the bearings with an O-ring compressed by at least ten percent. A one-way pressure relief valve was employed to prevent pressure buildup in the sealed bit. These design changes resulted in a substantial lengthening of the lifespan of the bits. The '928 patent was granted in 1968 and the '195 patent in 1969.

In its "Answer And Counterclaims Including Supplemental Counterclaim" in the declaratory judgment action dated June 9, 1976, Hughes made the following allegation in pertinent part:

"12. Plaintiff has infringed, and still is infringing each of said Letters Patent Nos. 3,397,928, 3,476,195 . . . by making, selling and using rock bits, including rock bits identified as plaintiff's "F" series solid journal bearing bits embodying each of the patented inventions and will continue to do so unless enjoined by this Court."

In "Plaintiff's Answer to Defendant's Counterclaim," dated July 2, 1976, Smith answered the above allegation:

"Answering paragraph 12, plaintiff admits that it has manufactured and sold, and is still manufacturing and selling

devices coming within the terms of certain of the claims of said U.S. Patents 3,397,928 and 3,476,195, but denies that it is infringing any of defendant's rights because said patents are invalid and therefore incapable of infringement." Thus, Smith's defense to the counterclaims was based solely upon its contention of invalidity, while it admitted that it manufactured and sold devices coming within the claims of Hughes' patents. This position is further reflected by the following portions of a Pre-Trial Conference Order, dated March 6, 1975:

"The following facts are admitted and require no proof:

* * *

III

* * *

4. Claims 1, 2 and 7-10 of U. S. Patent 3,397,928, if valid and enforceable, cover rock bits made and sold by Smith.

5. Claims 1, 2, 3 and 11 of U. S. Patent 3,476,195, if valid and enforceable, cover rock bits made and sold by Smith.

IV

The parties have no reservations with respect to the admitted facts specified in paragraph III."

A Supplement to the Pre-Trial Conference Order dated December 1977, contains the following provision:

"3. It having been admitted that some rock bits of plaintiff are within the scope of some claims of U. S. Patent Nos. 3,397,928 and 3,476,195, any other issues relating to the matter of infringement, except as set forth in item 2 herein, are deferred to an accounting proceeding, if such proceeding takes place."

The issues as framed by the pleadings and pre-trial orders included several questions concerning the validity of the

subject patents, and the question of whether Smith's infringement was willful and deliberate, but the *fact* of infringement, if the patents were determined to be valid, was not an issue to be tried. However, at trial, some revealing information was proved about the design and construction of the Smith "F series" bit. Smith's Vice President of Research and Development, Lloyd Garner, testified that he was aware of the Hughes patents, and that he instructed a Smith engineer, William Robinson, to design a bit which contained features similar to those of the subject patents. He also testified that he was aware of the possibility of infringing the patents by making these bits. Robinson testified that as a result of those instructions the "F series" bit was designed, which included the same features as the Hughes bit. He stated that Garner told him to design a bit similar to the Hughes bit.

On November 30, 1979, the United States District Court for the Central District of California held that the '928 patent and the '195 patent were invalid and dismissed Hughes' counterclaims. The Court of Appeals for the Ninth Circuit reversed this decision, declaring both patents to be valid, reinstating Hughes' counterclaim for infringement, and remanding the cause for further proceedings on the counterclaim. *Smith International Inc. v. Hughes Tool Company*, 664 F.2d 1373 (9th Cir.), *cert. denied*, ___ U.S. ___, 102 S.Ct. 2242 (1982).

Following remand to the district court, Hughes moved for entry of judgment in its favor, contending that Smith had admitted infringement of both patents. Hughes also sought a preliminary injunction to prevent further infringement by Smith. The district court declined to enter judgment, but acknowledged Smith's admission of infringement in the following statement in its order of October 6, 1982.

The Court agrees that the language of these orders [the previous pre-trial orders] indicates that plaintiff has, in fact, conceded liability on the question of infringement and that plaintiff has agreed that determination of the scope of the infringement and the amount of damages could be deferred to an accounting proceeding. Nevertheless, the Court declines to enter judgment in favor of defendant at this time. The Court finds it appropriate, rather, to proceed to a determination of the nature and the scope of plaintiff's infringement before entering judgment. Recognition of the binding effect of the two pre-trial orders discussed above does mean, however, that plaintiff may not contend in subsequent proceedings that it has in no way infringed the two patents at issue.

The court denied Hughes' request for a preliminary injunction, because it considered Smith's admission of infringement to be too general to meet the requirement of specificity for injunctive relief under Fed. R. Civ. P. 65(d). Hughes sought to overcome this defect by filing a "Motion for Preliminary and Permanent Injunction, or in the Alternative, for Reconsideration of Order of October 6, 1982." In a proposed order, it recited Claim 1 of the '928 patent and stated that Smith had infringed the patent "by making, using and selling rock bits of the type specified in the aforesaid Claim 1." The proposed order also recited the fact that the Ninth Circuit Court had declared the '928 patent to be valid and enforceable, and stated that continued infringement by Smith would result in irreparable harm to Hughes. In addition, Hughes presented portions of the record from the trial, which had not been considered by the court when it denied Hughes' first motion for an injunction. This evidence was intended to demonstrate the scope of infringement by Smith.

Because of the presentation of evidence, the district court viewed the motion as one for partial summary judgment, apparently on the issue of the *extent* of Smith's infringement. Because the motion was not presented as one for summary judgment, the court declined to grant the motion, holding in an order dated December 15, 1982, that the extent of Smith's infringement must be determined by trial or motion for summary judgment before an injunction could issue. However, the court specifically rejected Smith's argument that there had been no determination of infringement. Hughes has appealed from this order denying its motion for a preliminary injunction.

GROUND*S* FOR GRANTING PRELIMINARY INJUNCTION*S*

The constitutional provision, which is the basis of patent law, grants Congress the power to award "inventors the exclusive right to their . . . discoveries." U. S. Const. art, 1, § 8, cl. 8. Congress has exercised this power by enacting the Patent Statute, which provides that patents shall have the attributes of personal property (35 U.S.C. § 261) and grants to the patentee the right to exclude others from making, using or selling the invention for a period of seventeen years (35 U.S.C. § 154). The grant of a patent is the grant of the right to invoke the state's power in order to exclude others from utilizing the patentee's discovery without his consent. *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. 100, 135, 23 L.Ed.2d 129, 89 S.Ct. 1562 (1969); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229, 11 L.Ed.2d 661, 84 S.Ct. 784, *reh. denied*, 376 U.S. 973, 12 L.Ed.2d 87, 84 S.Ct. 1131 (1964); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 430, 52 L.Ed. 1122, 28 S.Ct. 748 (1908). Protection of this right to exclude has been provided by Congress through 35 U.S.C.

§ 283, *inter alia*, which provides that injunctions may be granted under the principles of equity to "prevent the violation of any rights secured by patent, on such terms as the court deems reasonable." Without this injunctive power of the courts, the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution and Congress, to promote the progress of the useful arts, would be seriously undermined. The patent owner would lack much of the "leverage," afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research. See I. KAYTON, KAYTON ON PATENTS, ch. 1, pp. 17-20 (1979).

However, courts have over the years developed a reluctance to resort to preliminary injunctions in patent infringement cases, and have constructed a rather strict standard for the granting of this form of equitable relief. It is generally recognized that the grant or denial of a preliminary injunction in a patent case is a matter committed to the sound discretion of the district court. *Pacific Cage and Screen Co. v. Continental Cage Corp.*, 259 F.2d 87, 88 (9th Cir. 1958); *Superior Electric Company v. General Radio Corp.*, 194 F.Supp. 339 (D.N.J.) *aff'd*, 321 F.2d 857 (3rd Cir.), *cert.denied*, 376 U.S. 938, *reh.denied*, 376 U.S. 973 (1964). The standard for granting such relief has been characterized as "unusually stringent." *Rohm & Haas Co. v. Mobil Oil Co.*, 525 F.Supp. 1298, 1302 (D.Del. 1981). A preliminary injunction will normally issue only for the purpose of preserving the status quo and protecting the respective rights of the parties pending final disposition of the litigation. *Superior Electric Company v. General*

Radio Corp., *supra*. The usual requirement of a showing of probability of success on the merits before a preliminary injunction will issue has historically been even stronger in a patent case. Besides having to prove title to the patent, it has been stated as a general proposition that the movant must show that the patent is beyond question valid and infringed. *Mayview Corp. v. Rodstein*, 480 F.2d 714, 717 (9th Cir. 1973); *Bose Corporation v. Linear Design Labs, Inc.*, 467 F.2d 304, 307 (2d Cir. 1972); *Eli Lilly and Company v. Generix Drug Sales, Inc.*, 460 F.2d 1096, 1099 (5th Cir. 1972); *Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp.* 443 F.2d 867, 871 (2d Cir.), *cert.denied*, 412 U.S. 929 (1973). In order to meet the burden of showing validity, the movant has sometimes been required to show either that his patent has previously been adjudicated valid, that there has been public acquiescence to its validity, or that there is conclusive direct technical evidence proving its validity. *Carter Wallace Inc. v. Davis Edwards Pharmacal Corp.*, *supra*, at 871-874; *Jenn-Air Corporation v. Modern Maid Company*, 499 F.Supp. 320, 323 (D.Del.), *aff'd*, 659 F.2d 1068 (3rd Cir. 1981). However, other courts have employed a less stringent standard of proof on the issue of validity. *See Eli Lilly and Co. v. Premo Pharmaceutical Labs*, 630 F.2d 120, 136 (3rd Cir.); *cert. denied*, 449 U.S. 1014 (1980); *Tyrolean Handbag Co. v. Empress Hand Bag, Inc.*, 122 F.Supp. 299, 302 (S.D. N.Y. 1954). The basis for the more severe rule appears to be both a distrust of and unfamiliarity with patent issues and a belief that the ex parte examination by the Patent and Trademark Office is inherently unreliable. Duft, *Patent Preliminary Injunctions and the United States Court of Appeals for the Federal Circuit*,

65 J. Pat. Off. Soc'y #131 (1983).¹

As with preliminary injunctions in other types of cases, the movant is also required to demonstrate in a patent case that he will suffer immediate irreparable harm if the injunction is not granted. *Singer Co. v. P.R. Mallory & Co., Inc.*, 671 F.2d 232, 234 (7th Cir. 1982). Some courts refuse to find irreparable injury where the alleged infringer is solvent and money will adequately compensate the injury. *Nuclear-Chicago Corp. v. Nuclear Data, Inc.*, 465 F.2d 428 (7th Cir. 1972); *Rohm & Haas Co. v. Mobil Oil Corp.*, *supra* at 1307; *Jenn-Air Corp. v. Modern Maid Co.*, *supra* at 333. However, at least one court is of the opinion that where the showing on patent validity is very strong, invasion of the inventors right to exclude granted by the patent laws should be sufficient irreparable harm without a showing that the infringer is financially irresponsible. *Zenith Laboratories, Inc. v. Eli Lilly and Co.*, 460 F.Supp. 812 (D.N.J. 1978).

Finally, where relevant, the court should take into account both the possibility of harm to other interested persons from the grant or denial of the injunction, and the public interest. *Eli Lilly and Co. v. Premo Pharmaceutical Labs*, *supra* at 136. In reaching its decision, the district court must consider the above factors and balance all of the elements. No one element will necessarily be dispositive of the case. *Id.* at 136.

On appeal, the scope of review of a district court's decision involving the denial of an injunction is narrow. One

¹It has been asserted that a hearing on a motion for a preliminary injunction is not the proper place to make a showing on absolute proof of likelihood of success. See Duft, *supra*. However, we do not find it necessary to decide that question, nor the question of the proper standard of proof, because we find that Hughes has met even the more stringent standard.

denied a preliminary injunction must meet the heavy burden of showing that the district court abused its discretion, committed an error of law, or seriously misjudged the evidence. *Eli Lilly and Co. v. Premo Pharmaceutical Labs*, *supra* at 136. The district court's discretion is not absolute, however, and must be measured against the standards governing the issuance of injunctions. *Singer Co. v. P.R. Mallory & Co., Inc.*, *supra* at 234; *Fox Valley Harvestore, Inc. v. A. O. Smith Harvestore Products, Inc.*, 545 F.2d 1096, 1097 (7th Cir. 1976). Where a case for a temporary injunction is clearly made out, it is not open to the trial court to deny the remedy. *Western Electric Co. v. Cinema Supplies, Inc.*, 80 F.2d 106, 110 (8th Cir. 1935). It is under this standard of review that we now undertake to examine the District Court's denial of a preliminary injunction in the instant case, being mindful of the fact that we now have exclusive jurisdiction over appeals from orders granting or denying injunctions in patent cases. 28 U.S.C. 1292(a)(1) and (c)(1), *as amended by* The Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, § 125, 96 Stat. 36.

THE VALIDITY OF THE HUGHES PATENTS

As noted above, the Court of Appeals for the Ninth Circuit held that both the '928 patent and the '195 patent were valid, reversing the district court's holdings to the contrary. *Smith International, Inc. v. Hughes Tool Co.*, *supra*. This holding was made despite arguments of invalidity by Smith on the basis of obviousness under 35 U.S.C. § 103, anticipation by prior art under 35 U.S.C. § 102, and failure to properly claim the invention under 35 U.S.C. § 112. The Ninth Circuit Court had the benefit of the contentions and arguments of Smith, a party whose interest animated its search for the best prior art and case law to support its

position of invalidity, and still the court found the patents valid. The United States Supreme Court denied certiorari. Thus, the validity of the Hughes patents has been adjudicated by a competent appellate court, which we assume considered all possible grounds for invalidating the patents, and yet it rejected them all.

THE INFRINGEMENT OF THE HUGHES PATENTS

In its brief and in oral arguments, Smith steadfastly denied that it had infringed the Hughes patents. It argued that there has been no finding of infringement by any court, that its former admissions are stale, and that, in any event, the admissions did not specify any particular product of Smith that infringed the patents, but only admitted "claim coverage" by unspecified devices.²

Smith's arguments are unconvincing. In our view, the record establishes the *fact* of infringement beyond all question. As the pleadings quoted above reveal, Smith never denied that its F series bits infringed the claims of the Hughes patents. It never denied that it would continue to make and sell these bits unless enjoined by the court. Instead, it relied solely upon its contention that the patents were invalid. As the Pre-Trial Conference Order reveals, Smith had no reservation about admitting that it manufactured and sold rock bits coming within the claims of the Hughes patents. The Ninth Circuit Court's decision removed any question about

²It is elementary that the metes and bounds of a patent right are defined by the claims of the patent, and that if the accused matter falls within the claims, literal infringement is made out. *Laser Alignment, Inc. v. Woodruff & Sons, Inc.*, 491 F.2d 866 (7th Cir.), *cert.denied*, 419 U.S. 874 (1974); *Strumkis v. U.S.*, 474 F.2d 623 (Ct. Cl.), *cert.denied*, 414 U.S. 1067, *reh.denied*, 414 U.S. 1147 (1974). Therefore, an admission of "claim coverage" is an admission of literal infringement.

the validity and enforceability of the patents. Therefore, we have before us a clear admission that Smith makes and sells bits falling within the claims of Hughes' patents. Smith's failure to deny Hughes' allegations that Smith's F series bits infringed the Hughes' patents, and that it intended to continue making and selling them also amounts to an admission of infringement under Fed. R. Civ. P. 8(d). Even the district court recognized that Smith had "conceded liability on the issue of infringement." It stated that Smith would not be allowed to contend that it had in no way infringed the patents. Order of October 6, 1982.

The inclusion of Smith's admissions in the district court's pre-trial orders amounts to an adjudication that Smith had infringed the patents. Under Fed. R. Civ. P. 16, those orders controlled the subsequent course of action, unless modified. Here, no modification occurred. Those orders were merged into the final declaratory judgment of the district court. *Cohen v. Beneficial Loan Corp.*, 337 U.S. 541, 546, 69 S.Ct. 1221, 93 L.Ed. 1528 (1949). No issue relating to infringement was appealed by Smith to the Ninth Circuit Court, thus rendering the district court's adjudication of infringement final and conclusive. *Richardson v. Communications Workers of Amer. AFL-CIO*, 486 F.2d 801, 804 (8th Cir. 1973); *Atchison, Topeka and Santa Fe Railway Co. v. Jackson*, 235 F.2d 390, 392 (10th Cir. 1956). We see no reason why any further adjudication on the fact of infringement is needed.³

³The reinstatement of the Hughes counterclaim by the Ninth Circuit Court, and its remand for further proceedings, in no way indicates that the court viewed the fact of infringement as an open question. In our view, the "further proceedings" provision in the remand order refers to an accounting proceeding and a consideration of the matter of a permanent injunction. No further proceedings are necessary on the issue of whether infringement occurred.

The district court, while recognizing that infringement occurred, nonetheless declined to grant an injunction until the *extent* of the infringement was shown. We have found no case in our research that places such a burden on one seeking a preliminary injunction in a patent infringement case, and none has been cited to us. Such a requirement would make the standard practically impossible to meet. This inquiry is better left for the accounting proceeding, and the district court erred in making such a requirement of Hughes.⁴

Thus, the decisions on validity and infringement weigh heavily in Hughes' favor on the injunction issue before us. This is so even though these two issues, validity and infringement, have historically made preliminary injunctions difficult to obtain in patent cases.

IRREPARABLE HARM

As mentioned above, some courts will not find irreparable harm to exist without a showing of financial irresponsibility. In this case, no such showing exists. However, none of the cases we have reviewed in which injunctions were denied for lack of irreparable harm involved such a strong showing of validity and infringement as exists in the instant case.⁵ Courts faced with strong showings of validity and infringe-

⁴As noted above, the district court viewed the Hughes motion as one for summary judgment because Hughes presented evidence on the scope of infringement. Had the district court not stated in its previous order of October 6, 1982, that it would not grant an injunction before determining the scope of infringement, Hughes would have had no reason to present such evidence. The source of confusion about the Hughes motion was the district court's erroneous requirement of proof of the extent of infringement.

⁵See generally, *Singer Co. v. P.R. Mallory & Co., Inc.*, *supra*; *Rohm & Haas Co. v. Mobil Oil Corp.*, *supra*; *Frommelt Industries, Inc. v. W.B. McGuire Co., Inc.*, 504 F.Supp. 1180 (N.D. N.Y. 1981); *Jenn-Air Corporation v. Modern Maid Co.*, *supra*; *Superior Electric Co. v. General Radio Corp.*, *supra*.

ment, on the other hand, have found irreparable harm from continued infringement of a valid patent. *Zenith Laboratories, Inc. v. Eli Lilly and Co.*, *supra* at 825 (where validity is very strong, invasion of the right to exclude is sufficient irreparable harm); *Teledyne Industries, Inc. v. Windmere Products, Inc.*, 433 F.Supp. 710, 741 (S.D. Fla. 1977) (to permit infringement during pendency of suit would be to grant a license valid as long as the infringer could contest the suit, and encourage others to infringe as well). We agree with the reasoning in these cases. The very nature of the patent right is the right to exclude others. Once the patentee's patents have been held to be valid and infringed, he should be entitled to the full enjoyment and protection of his patent rights. The infringer should not be allowed to continue his infringement in the face of such a holding. A court should not be reluctant to use its equity powers once a party has so clearly established his patent rights. We hold that where validity and continuing infringement⁶ have been clearly established, as in this case, immediate irreparable harm is presumed.⁷ To hold otherwise would be contrary to the public policy underlying the patent laws.

Upon balancing the requisite factors, we hold that the district court erred in denying Hughes' motion for a prelim-

⁶Even if Smith's admissions are not interpreted as indicating an intention to infringe in the future, the showing of past infringement has been strong enough to justify a finding of probable future infringement. See *Aluminum Extrusion Company v. Soule Steel Company*, 260 F.Supp. 221, 225 (C.D. Cal. 1966).

⁷This is the rule in copyright cases. See, Duft, *supra* at n. 64 and cases cited therein. Our holding on this issue does not abrogate the traditional requirement of a showing of irreparable harm by one seeking a preliminary injunction. As noted above, the trial court should balance the requisite factors. In cases where the showing of validity and infringement is less forceful than it is here, or in cases where equitable or public policy considerations are in favor of the infringer, a movant would have to make a stronger showing of irreparable harm in order to tip the balance of equity in his favor.

inary injunction. It committed a clear error of law in requiring proof of the extent of infringement prior to granting the preliminary injunction. The extent of infringement relates to damages and is a question to be determined at the trial on the merits. In addition, there do not appear to be any equitable considerations in this case that could in any way offset the strong showing of validity and infringement made by Hughes, coupled with the presumption of irreparable harm. Smith argues that public policy and the balance of hardship are in its favor, because it is a substantial competitor and has on hand a large inventory of the rock bits at issue here, and it would be unfair to disrupt its activities with an injunction. But it is clearly established that Smith knew of the Hughes patents when it designed the F series bits and took a calculated risk that it might infringe those patents. It instituted this action in an attempt to invalidate its competitor's patents, and, having failed, it will not now be heard to say that public policy is in its favor. To the contrary, public policy favors protection of the rights secured by the valid patents. Under these circumstances, we hold that the denial of a preliminary injunction was based on a clear error of law and constituted an abuse of discretion.*

CONCLUSION

The decision of the district court is reversed, and the cause is remanded with instructions to issue an appropriate preliminary injunction enjoining Smith International, Inc. from infringing claim 1 of the '928 patent on such terms as are deemed proper by the district court.

REVERSED AND REMANDED

*Though the parties and the district court treated the matter as involving a "preliminary" injunction, and we have reviewed the case in those terms, we intend no implication that a patentee is not entitled to a permanent injunction against the infringer in the case upon final judicial determination that the involved patent is valid and has been infringed by that infringer. Such an injunction prohibits infringement by any product, not just those involved in the original suit. The burden of avoiding infringement at the risk of contempt falls upon the one enjoined.

NOV 3 1983

STEVAS,
CLERK

No. 83-695

In the
Supreme Court of the United States

OCTOBER TERM, 1983

SMITH INTERNATIONAL, INC.,

Petitioner,

vs.

HUGHES TOOL COMPANY,

Respondent.

**BRIEF IN OPPOSITION ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

EDWARD A. HAIGHT
BRITTON A. DAVIS
ROLF O. STADHEIM
DORSEY L. BAKER
55 East Monroe Street
Suite 3614
Chicago, Illinois 60603
(312) 263-2353

DAVID BRICE TOY
626 Wilshire Boulevard
Suite 400
Los Angeles, California
(213) 629-0101

*Attorneys for Respondent,
Hughes Tool Company*

Pursuant to Rule 28.1 of this Court, Respondent Hughes Tool Company, states that it has no parent companies, that it has the following affiliates (other than wholly owned subsidiaries): Hughes Tool Company, C.A., Venezuela; Hughes WKM do Brasil Equipamentos Industriais LTDA, Brazil; Alea Company, Limited, Nigeria; APSCO (Asia) Pte. Limited, Singapore; Associated Petroleum Supply (Hong Kong) Limited; Brown-Foraid Oil Tools U.A.E., Ltd. Bermuda; Brown Oil Tools de France S.A.R.L., France; Sebip-Servicios Brasilerios Especializados en Petroleo Ltda.; Dyno-Hughes Drilling Services A/S; Edeco-Centrallift Services GmbH; and Edeco-Centrallift Services Ltd.

TABLE OF CONTENTS

	PAGE
Statement Pursuant to Rule 28.1 of the United States Supreme Court	i
PRELIMINARY STATEMENT	1
CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED	3
STATEMENT OF THE CASE	3
ARGUMENT	6
1. This Court Has Settled The Question Of Whether An Adjudication Of Infringement, Validity And Enforceability Alone Support Injunctive Relief	6
2. The Petition Does Not Present Any Cognizable Reason For Granting The Writ	8
CONCLUSION	9

Table of Authorities

Cases

	PAGE
<i>Continental Bag Co. v. Eastern Paper Bag Co.</i> , 210 U.S. 405 (1908)	6
<i>Dawson Chemical Co. v. Rohm & Haas Co.</i> , 448 U.S. 176 (1980)	6, 8
<i>Grant v. Raymond</i> , 31 U.S. [6 Pet.] 218 (1832)	6
<i>Smith International, Inc. v. Hughes Tool Co.</i> , 664 F.2d 1373 (9 Cir. 1982), <i>cert. den.</i> 456 U.S. 976, 102 S.Ct. 2242 (1982)	4
<i>Zenith Radio Corp. v. Hazeltine Research</i> , 395 U.S. 100 (1969)	6, 7

Statutes

United States Code, Title 35, Section 154	3
---	---

Other Authorities

Article 1, Section 8, United States Constitution	3
Rule 16, Federal Rules of Civil Procedure	4
Rule 17, United States Supreme Court	9

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1983

No. 83-695

SMITH INTERNATIONAL, INC.,

Petitioner,

vs.

HUGHES TOOL COMPANY,

Respondent.

**BRIEF IN OPPOSITION ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

Preliminary Statement

Petitioner's attempt to interest the Court in this case is centered on misstatements with respect to the decision of the Court of Appeals. The misstatements are reflected in the proffered "Question Presented."

In its first statement of the "question," Smith suggests that the Court of Appeals did not find that there was a *showing* of irreparable harm. On the contrary, the Court found that there was "a strong showing of validity and infringement" and that such circumstance was, in itself, a showing of irreparable harm (Opinion, p.16).

In its final attempt to phrase the "question presented," Smith represents that the District Court had denied the preliminary injunction "for want of a showing of immediate irreparable harm." The District Court did no such thing. The basis for the District Court's denial was clear — and was stated in a single sentence in the order from which the appeal was taken. The District Court held:

"It is necessary to determine the *extent* of plaintiff's infringement in a judicial proceeding — either by trial or by motion for summary judgment — before an injunction can issue" [App. 415].

Thus, the District Court labored under the misapprehension that injunctive relief in a patent case can only be awarded after the amounts of the infringing devices sold or manufactured had been tabulated. It was this reasoning of the District Court which the Court of Appeals found to be faulty (see Opinion, p.15). Smith's Petition ignores this point entirely.

Hughes Tool opposes the petition of Smith International on two grounds:

1. This Court has long since settled the question presented by holding that upon an adjudication of patent validity, enforceability and infringement, injunctive relief against future infringement is not only proper, but mandated by public policy and the patent laws.

2. The Petition does not present any reason for granting the writ of certiorari cognizable under Rule 17 of this Court.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Article 1, Section 8 of the Constitution in pertinent part provides:

“The Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”

Section 154 of Title 35, U.S.C. provides:

“Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.”

STATEMENT OF THE CASE

When Smith started this suit in 1972, it admitted its infringement of the Hughes patents and that its sole defense to the patents lay in its attack on their validity and enforceability. In subsequent answers to Hughes' counterclaims for infringement of the '928 and '195 patents, Smith made binding judicial admissions that it had infringed and was continuing to infringe the patents “by making, selling and using rock bits, including rock bits identified as Plaintiff's “F” series solid journal bearing bits embodying each of the patented inventions,” and that it would continue to do so “unless enjoined by this Court” (App. 003, 006).

Those admissions were accepted by the trial court and were incorporated into stipulated pre-trial conference orders which governed the disposition of the case in accordance with Rule 16, F.R.C.P. Following the trial in 1977, and the entry of a judgment in 1979, those orders became merged in the judgment, and the law of the case. The conclusion of infringement embodied in those orders was never modified or challenged by Smith (App. 022, 029).

Not only did Smith admit to its infringement, at the trial its officers and engineering personnel admitted that the infringement came about because of direct copying of the patented features in the Hughes bits. The same Smith witnesses conceded that they had known of the '923 and '195 patents at the time, and were aware of the possibility of infringing those patents as a result of their acts of copying (App. 158-162). Not surprisingly, the Court of Appeals found that:

"... it is clearly established that Smith knew of the Hughes patents when it designed the "F" series bits and took a calculated risk that it might infringe those patents" (Opinion, p.18).

The adjudication of infringement in the pre-trial conference orders and judgment of the trial court were not appealed to the Court of Appeals for the Ninth Circuit in 1980. Instead, Smith continued to mount its attack on the patents solely on the basis of their alleged invalidity and unenforceability. But, Smith lost on its "calculated risk." The opinion of the Ninth Circuit holding the patents to be valid and enforceable is reported as *Smith International, Inc. v. Hughes Tool Co.*, 664 F.2d 1373 (9 Cir. 1982), cert. den. 456 U.S. 976, 102 S.Ct. 2242 (1982).

Hence, each of the issues of infringement, validity and enforceability stand as finally adjudicated by the Ninth Circuit. The Court of Appeals for the Federal Circuit has so held (Opinion, pp.12-15).

Smith's Petition to this Court raises no challenge to the holding of the Court of Appeals that infringement, validity and enforceability have been finally adjudicated in this litigation.

The background and statement of the case recited in the Court of Appeals' Opinion more than adequately detail the pertinent circumstances of this case. Since Smith's Petition does not contest that recitation, further elaboration in this brief is unnecessary.

ARGUMENT

1. This Court Has Settled The Question Of Whether An Adjudication Of Infringement, Validity And Enforceability Alone Support Injunctive Relief.

When stripped of its gloss, Smith's "question presented" comes down to this: Is a binding adjudication of patent infringement, validity and enforceability — without more — sufficient to support the issuance of an injunction which will foreclose the infringer from continuation of its tortious acts?

This Court has long ago settled this question. Indeed, the conclusion has been said to have found its earliest roots in a decision by Chief Justice John Marshall in *Grant v. Raymond*, 31 U.S. [6 Pet.] 218, 242 (1832) where it was decided that the essential right an inventor receives from a patent is the right to exclude others from its use for the term prescribed by the Patent Statute:

“And for his exclusive enjoyment of it during that time the public faith is forever pledged.”

Seventy years later, in *Continental Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-430 (1908), this Court had occasion to review a long history of its holding since Mr. Chief Justice Marshall's pronouncements, and to consider — and settle — the question here presented. The rationale of *Continental Bag* has withstood time. It was affirmed more recently in *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. 100, 135 (1969), and, again, in *Dawson Chemical Co. v. Rohm & Haas*, 448 U.S. 176, 215 (1980).

In *Continental Bag*, the issue was whether an adjudicated infringer of an adjudicated valid patent should be permitted to escape the consequences of injunctive relief, and allowed to respond at law in damages only. The infringer's argument was predicated upon the fact that the patent owner was not using his invention and, hence, the equitable principle, i.e., irreparable harm to the patent owner, could not be said to exist. The infringer failed in his argument. To the suggestion that the absence of immediate competitive harm rendered inappropriate the exclusivity accorded by injunctive relief, this Court responded:

"... we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent." (210 U.S. at 429)

In *Continental Bag*, this Court went on to hold that where, as here, there has been an adjudication of patent validity and infringement, no additional circumstance is to be considered on the equitable principle of irreparable harm. Because of the nature of the patent right, infringement thereof is irreparable harm. This Court said (210 U.S. at 430):

"From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee. . . ."

In *Zenith Corp. v. Hazeltine Research*, 395 U.S. 100, 135 (1969), this Court had occasion to reaffirm its conclusion in *Continental Bag*:

"A patentee has the exclusive right to manufacture, use and sell his invention. . . . The heart of his legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent." [citing *Continental Bag* and other cases]

Most recently, in *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 197, 215 (1980), this Court had occasion to note that the "traditional remedy against . . . infringement is the injunction." Citing its earlier decisions in *Continental Bag* and *Zenith*, the Court said:

" . . . petitioners' argument runs contrary to the long-settled view that the essence of a patent grant is the right to exclude others from profiting by the patented invention."

In the present case, the Court of Appeals did no more than to apply the law long ago settled by this Court. Whether irreparable harm is said to be *shown* by an adjudication of patent validity and infringement, as this Court held in *Continental Bag*, or is *presumed*, as the Court below stated, is of no material moment. The result is identical. The entry of an injunction prevents the infringer from continuing his tortious acts.

Here, the very vigor of Smith's resistance to the entry of an injunction, is proof that one is needed.

2. The Petition Does Not Present Any Cognizable Reason For Granting The Writ.

Smith's Petition virtually ignores the considerations governing review on certiorari explicitly set forth in this Court's Rule 17. None are met by the Petition.

In its "Reasons For Granting The Writ", Smith speaks of "two centuries of unbroken precedent" — apparently

a reference to the recent bicentennial of this Country. Nothing more is said to impart any substance to this rather grandiose claim.

The Petition does cite two decisions of this Court. But neither were patent cases; neither involved the question here said to be presented. And, the Petition ignores the directly applicable *Continental Bag* and *Zenith* precedents which were cited by the Court below in support of its conclusion.

No reason cognizable under Rule 17 for granting the writ exists.

CONCLUSION

The Petition should be denied.

Respectfully submitted,

EDWARD A. HAIGHT
BRITTON A. DAVIS
ROLF O. STADHEIM
DORSEY L. BAKER
55 East Monroe Street
Suite 3614
Chicago, Illinois 60603
(312) 263-2353

DAVID BRICE TOY
626 Wilshire Boulevard
Suite 400
Los Angeles, California 90017
(213) 629-0101

*Attorneys for Respondent,
Hughes Tool Company*

No. 83-695

In The
SUPREME COURT OF THE UNITED STATES

NOV 23 1983

ALEXANDER L. STEVENS
CLERK

October Term, 1983

SMITH INTERNATIONAL, INC., a California corporation,

Petitioner,

vs.

HUGHES TOOL COMPANY, a Delaware corporation,

Respondent.

PETITIONER'S REPLY TO OPPOSITION
TO PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

LYON & LYON
A Partnership Including
JAMES W. GERIAK
DOUGLAS E. OLSON
ROBERT C. WEISS
WILLIAM C. STEFFIN
COE A. BLOOMBERG
Professional Corporations

Attorneys for Petitioner.

Of Counsel:

JOHN W. SCHNELLER

NOV 23 PAGE 15

TOPICAL-INDEX

	Page
Respondent's Brief Admits That The Court of Appeals Departed from Existing Law.	1
Respondent's Cases Are Inapposite	2
Respondent's Statutory Citation Is Also Inapposite.	7
The Pertinent Law	7
Conclusion.	8

TABLE OF AUTHORITIES

Cases	Page
Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 52 L.Ed. 1122 (1908)	3
Dawson Chemical Co. v. Rohm & Haas, 448 U.S. 176, 65 L.Ed.2d 696 (1980)	6
Foster v. American Machine & Foundry Co., 492 F.2d 1317, 1324, cert. denied, 419 U.S. 883 (1974)	4
Grant v. Raymond, 31 U.S. 218, 8 L.Ed. 376 (1832)	6
Hamilton Standard Propeller Co. v. Fay-Egan Mfg. Co., 101 F.2d 614, 616 (6 Cir. 1939)	5
Minnesota Mining & Mfg. Co. v. Carpenter Printing Co., 234 F.Supp. 418, 420 (N.D. Ohio 1964). . .	5
Nuclear-Chicago Corp. v. Nuclear Data, Inc., 465 F.2d 428, 430 (7 Cir. 1972)	8
Sampson v. Murray, 415 U.S. 61, 90-91, 39 L.Ed.2d 166, 186-87 (1974)	7
Zenith Radio Corp. v. Hazeltine Research, 395 U.S. 100, 23 L.Ed.2d 129 (1969)	6

Statutes

United States Code, Title 35, Sec. 271(d)	6
United States Code, Title 35, Sec. 154	7
United States Code, Title 35, Sec. 283	7

K

Supreme Court, U.S.
FILED
NOV 23 1983
ALEXANDER L. STEVAS
CLERK

No. 83-695

In The

SUPREME COURT OF THE UNITED STATES

October Term, 1983

SMITH INTERNATIONAL, INC., a California corporation,
Petitioner,

vs.

HUGHES TOOL COMPANY, a Delaware corporation,
Respondent.

PETITIONER'S REPLY TO OPPOSITION
TO PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Respondent's Brief Admits that the
Court of Appeals Departed from
Existing Law

Rather than making any meaningful attempt to reconcile the holding of the Court of Appeals (that immediate irreparable harm, e.g., inadequacy of money damages, need not be shown, but is to be presumed on behalf of patent owners in order to grant a preliminary injunction) with existing precedent, Respondent simply asserts that a "strong" showing of patent "validity and infringement" (Brief in Opp., p.1) is:

NOV 23 PAGE 15

" in itself, a showing of irreparable harm." (emphasis added)

Similarly, at page 7 of its Brief in Opposition, Respondent boldly states:

"Because of the nature of the patent right, infringement thereof is irreparable harm."

(emphasis in original)

If this view is to be accepted, gone is the irreparability requirement that a patent owner seeking a preliminary injunction must show that money damages will be inadequate to compensate him and gone is the immediacy requirement that some showing of current infringement, rather than long past or speculative future infringement, must be made.

The Court of Appeals' decision states that a "strong" showing on the issues of patent validity and infringement creates a presumption of immediate irreparable harm (Appendix B, p. 18) which establishes an entitlement to a preliminary injunction. If this is to be the law, preliminary injunctions will become routine in patent cases, rather than the rare exception, even though such a showing goes only to likelihood of success, not to irreparable harm.

Respondent's Cases Are Inapposite

Respondent has offered four cases, all decisions of this Court, in its effort to keep the important issue presented by this case from being reviewed by this Court. Of these,

only one, Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 52 L.Ed. 1122 (1908), in any way involves the question of entitlement to an injunction and that case concerns a permanent injunction issued after final judgment, not a preliminary injunction. Furthermore, in Continental Paper Bag, this Court expressly declined, at 210 U.S. 430, to decide the very question which Respondent urges to be the holding of the case.

In Continental Paper Bag, the patent infringement action had been, unlike the present case, fully tried in the trial court and a final judgment of validity and infringement had been entered. The losing defendant argued (apparently for the first time on appeal), that the patentee-plaintiff should be denied a permanent injunction because it was not itself making use of the patented invention. The nonuse was undisputed, but this Court refused to reverse the lower courts' grant of injunctive relief because there was no showing that the nonuse was "unreasonable" (210 U.S. 429).

This Court went on to say:

"Whether, however, a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction, we do not decide." (emphasis added)

Plainly, this Court did not hold, as Respondent would have it, that traditional equitable principles are not applicable to injunctions in patent cases.

Subsequent decisions confirm this view. For example, in 1974 the Court of Appeals for the Second Circuit was asked to reverse the denial of injunctive relief, after trial, to a nonusing patentee. It refused, and said in Foster v. American Machine & Foundry Co., 492 F.2d 1317, 1324, cert. denied, 419 U.S. 883 (1974):

"An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. 35 U.S.C. § 283. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance. See Hoe v. Boston Daily Advertiser Corp., 14 F. 914 (C.C.Mass. 1883). Here, as the District Court noted, the appellant does not. In the assessment of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable. Nerney v. New York, N.H. & H.R. Co., 83 F.2d 409,

410-411 (2 Cir. 1936); American Safety Device Co. v. Kurland Chemical Co., 68 F.2d 734 (2 Cir. 1934)." (emphasis added)

Similarly, in Hamilton Standard Propeller Co. v. Fay-Egan Mfg. Co., 101 F.2d 614, 616 (6 Cir. 1939), and Minnesota Mining & Mfg. Co. v. Carpenter Printing Co., 234 F.Supp. 418, 420 (N.D. Ohio 1964), patentees were denied injunctive relief after final judgment in their favor because there was no current infringement, i.e., no threat of irreparable harm. There is no record of current infringement in the present case, which the District Court noted when it said:

"It is necessary to determine the extent of plaintiff's infringement in a judicial proceeding -- either by trial or by motion for summary judgment -- before an injunction can issue" (Appendix A, p. 2)

Respondent has quoted (Brief in Opp., p. 2) this statement by the District Court as evidence of improper legal analysis. Far from it; the District Court was quite properly weighing the appropriate equitable factors in an effort to determine whether a showing of immediate irreparable harm had been made.

The remaining three cases in which Respondent tries to find some support for its position contain nothing more than abstract statements of general principles regarding the grant

of patents and are not pertinent to the issue of whether a preliminary injunction should be granted without a showing of irreparable harm or of the immediate threat of such harm.

Grant v. Raymond, 31 U.S. 218, 8 L.Ed. 376 (1832), was concerned with the question of whether patents could be properly reissued to cure defects and held that they could be. Mr. Justice Marshall's comment with regard to pledge of the public faith (31 U.S. 242) to patent owners has absolutely nothing to do with the issuance of injunctions, much less preliminary injunctions.

Zenith Radio Corp. v. Hazeltine Research, 395 U.S. 100, 23 L.Ed.2d 129 (1969) concerned the antitrust consequences of a patent licensing scheme. This Court's offhand reference to the nature of the patent grant was merely an introduction to a substantive discussion of various limitations which the law imposes on patent owners to prevent abuse of the public. Zenith is totally without relevance to the standards applicable to issuance of preliminary injunctions in a patent or any other kind of case.

Dawson Chemical Co. v. Rohm & Haas, 448 U.S. 176, 65 L.Ed.2d 696 (1980), had to do with interpretation of the contributory infringement statute, 35 U.S.C. 271(d), and held that a patent owner was not disabled from suing other manufacturers for contributory infringement even though it refused to license its patented process to anyone other than those who purchased raw materials for use in the process from the patent

owner. Once again, this case has no pertinence whatsoever to the issuance of preliminary injunctions.

Plainly, Respondent has been unable to find any precedent which even remotely supports the decision of the Federal Circuit in this case that immediate irreparable harm can be presumed for the purpose of reversing, as an abuse of discretion, a denial of a preliminary injunction in a patent action.

Respondent's Statutory Citation Is Also Inapposite

The statutory provision, 35 U.S.C. 154, which Respondent asserts (Brief in Opp., p. 3) to be applicable is not the patent statute relating to injunctions, but rather the statute which generally defines the nature of the patent grant. The statute which is in fact pertinent is 35 U.S.C. 283 and it is so identified at page 2 of our Petition. Section 283 provides that injunctions in patent cases are to be granted only:

" . . . in accordance with the principles
of equity . . . ",

not, as Respondent would have it, as a matter of course without regard for equitable considerations.

The Pertinent Law

The directly relevant law is that reflected by this Court's decision in Sampson v. Murray, 415 U.S. 61, 90-91,

39 L.Ed.2d 166, 186-87 (1974) where the availability of "adequate compensatory" relief was held to preclude irreparable injury and by Nuclear-Chicago Corp. v. Nuclear Data, Inc., 465 F.2d 428, 430 (7 Cir. 1972), a patent case, where the court held:

" . . . A defendant's ability to compensate plaintiff in money damages precludes issuance of a preliminary injunction."

These cases, and several others demonstrating the fact that there is an unbroken line of precedent to this effect reaching back to the earliest days of this nation, are cited and discussed at pages 5 through 10 of our Petition. It is a striking fact that Respondent's Brief in Opposition contains no mention or discussion of these cases. This inability on the part of Respondent to come to grips with the pertinent law is a plain demonstration that the Court of Appeals has, in the present case, made a substantial departure from existing law which warrants review by this Court.

Conclusion

Unless this Court intervenes, the decision of the court below will mark the advent of a new era in the patent law in which preliminary injunctions will be granted on the basis of likelihood of success on the merits without a showing of irreparable harm because when there is a "strong" showing of patent validity and infringement "immediate irreparable harm

is presumed." (Court of Appeals opinion, p. 17, Appendix B, p. 18).

Unless certiorari is granted, every district court judge in this nation will be compelled to apply a new and different standard for grant of preliminary injunctions in patent cases from that ever before applied in patent cases and from that applied in all other types of cases.

November , 1983.

LYON & LYON
A Partnership Including
JAMES W. GERIAK
DOUGLAS E. OLSON
ROBERT C. WEISS
WILLIAM C. STEFFIN
COE A. BLOOMBERG
Professional Corporations

Attorneys for Petitioner.

Of Counsel:

JOHN W. SCHNELLER